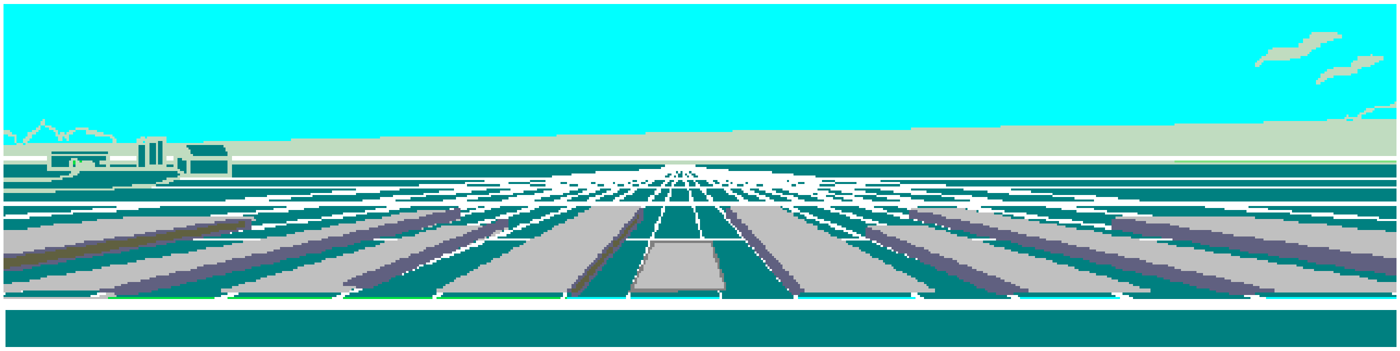


December 17, 2001 **Ames, Iowa** **Econ. Info. 1828**

LARGER THAN EXPECTED PORK SUPPLIES

The next USDA Hogs and Pigs report will be released December 28 and will hopefully shed some light on the recent market confusion. After overestimating hog slaughter based on USDA inventory estimates for the first 9 months of the year, analysts were happy to see the USDA revise downward earlier estimates of hog inventories. However, since the September revision, hog slaughter has been 1.4 percent higher than the year before in October – December 15, rather than 2.4 percent lower as the March – May pig crop would suggest. Slaughter in the first two weeks of December was nearly 5 percent higher than the same time a year ago.

Comparing Federally Inspected hog slaughter in 2001 to the same time in 2000, this year was 1.9 percent lower in the first quarter, 0.9 percent higher in the second, and 1.7 percent lower in the third quarter than the previous year. While the September Hogs and Pigs report predicted a 2.4 percent lower March – May pig crop, slaughter from early October through mid-December has been 1.4 percent higher.

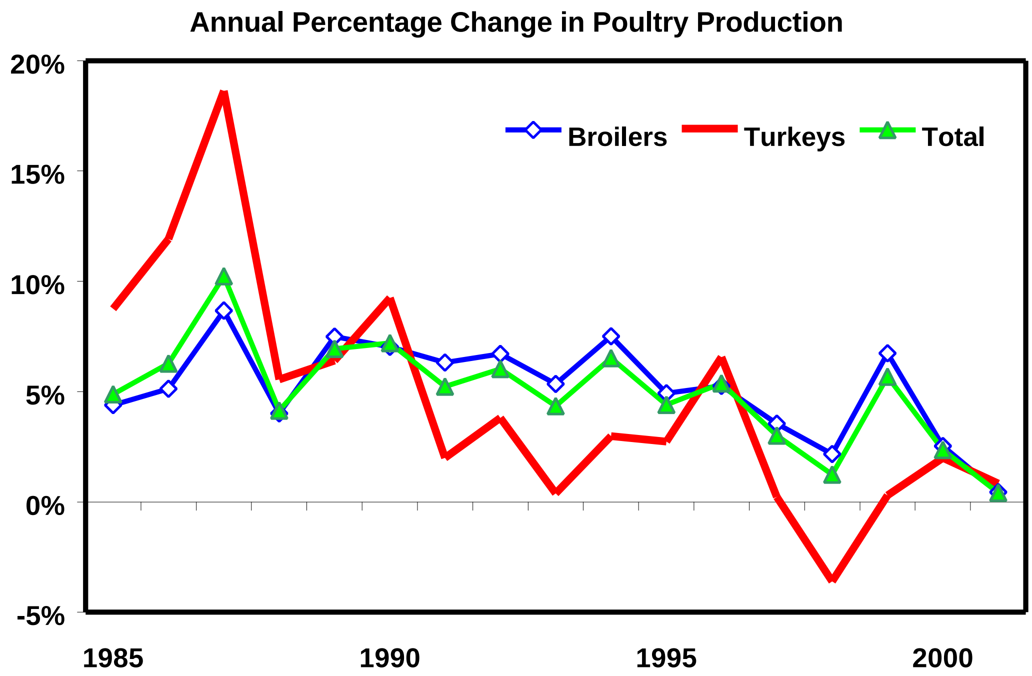
At least a portion of this difference may be due to the weather's influence on marketings. Even in confinement facilities, reports are that late summer marketings were slower than expected and fall performance has been exceptionally good. As a result some hogs may have been pushed back in the summer and now others are being pulled ahead, adding to 4th quarter numbers. The 1.4 percent increase this year over last thus far in the 4th quarter totals approximately 300,000 hogs or less than on day slaughter.

Adding to the pork supply is record weights. Average live weights have been at 270 pounds for the three weeks ending December 1, 8, and 15. Compared with mid-December 2001, live weights are 5 pounds heavier. This week hog slaughter was up 4.7 percent compared with a 6.3 percent increase in pork tonnage.

Seasonally, hog prices are relatively week through the Christmas – New Years holidays. During the 1990s, prices increased 4 out of 10 years from week 49 to week 51 and only 3 years from week 51 to week 1 of the next year. However, between weeks 1 and 3, prices increased 8 of 10 years with an average increase of 13%. Between weeks 3 and 5, prices increased 10 of 10 years, for an average of 4%. Thus, there is reason for optimism after the first of the year. For more information on seasonal price patterns, check: http://www.econ.iastate.edu/faculty/lawrence/Acrobat/ISMHOG90-99.pdf

Slower Poultry Growth

Poultry production for 2001 is expected to increase less than 1 percent over 2000 after a long history of year-over-year growth. Broiler and total poultry production had regularly increased at 5 percent per year before becoming more erratic since 1998 (Figure 1). Turkey production grew rapidly in the late 1980s and then more slowly in the 1990s. Turkey production was actually down in 1998 before rebounding in recent years.



Challenges For Meat Trade

Challenges for international trade in meats have been abundant in 2001. Foot and Mouth Disease in Europe and South America, BSE in Europe and now Japan, enactment of Japanese pork safeguards in July, continuing weakness in Asian and European economies and emerging weakness in North and Central American economies have all played major roles. Some of these challenges have been positive for the U.S. industries while some have been negative.

September's U.S. beef exports totaled 206.6 million pounds on a carcass weight basis, 6.6 percent more than 2000's. September was the first month in 2001 in which U.S. beef exports were above a year ago. Year-to-date exports are 254.9 million pounds (13.3 percent) below 2000's.

September's U.S. beef imports totaled 260.8 million pounds on a carcass weight basis, 30.7 million pounds more than a year ago. The increase came from Australia (41.8 million pounds or 49.8 percent) and Canada (11.4 million pounds or 14.9 percent). Most other countries sent less beef to the U.S. in September. Year-to-date U.S. imports were 106.9 million pounds above 2000's and brought year-to-date net U.S. beef imports (imports minus exports) to 812.2 million pounds, an 80.3 percent increase over a year ago and the largest January through September net beef import level since 1994.

U.S. pork exports in September were 6.3 million pounds (6.1 percent) below 2000's. The decline was primarily due to a 7.6 million pound (25.3 percent) year-to-year drop in U.S. pork exports to Mexico. Exports to most other countries (with the exception of Hong Kong) were above a year ago. Year-to-date U.S. pork exports were 217.2 million pounds (23.1 percent) above a year ago.

September's U.S. pork imports were 8.3 million pounds (10.9 percent) above a year ago. That put September's net pork exports (exports minus imports) at 13.8 million pounds, the lowest since February 1997. Year-to-date pork imports were 31.3 million pounds below 2000's. Net pork exports for January through September were 472.4 million pounds, the largest on record for that time period.

For the balance of 2001, U.S. beef exports will likely back off and imports should increase as a result of the BSE situation in Japan. At the same time, U.S. pork exports should remain close to a year ago while imports likely will increase as other countries offer meat to the U.S. that would have gone to Japan if the Japanese safeguard were not in effect. Overall, net beef import tonnage for the calendar year could be the highest in nearly a decade while net pork exports could be the first or second largest on record.

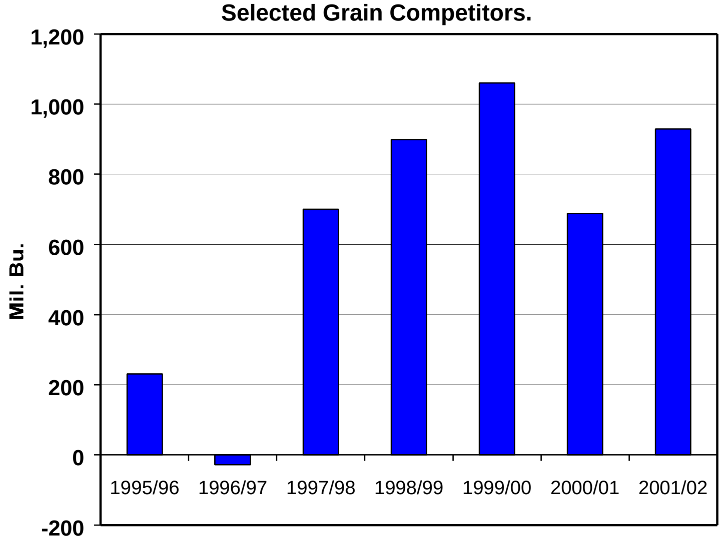
Source: Livestock Market Information Center

John Lawrence

FOREIGN FEED GRAIN & SOYBEAN COMPETITION

Export markets are a major influence on corn prices, even though the majority of the U.S. corn crop (79%)is used domestically. For soybeans, exports are much more important. They account for nearly half of the total demand for the U.S. crop. ***Since 1995-96, U.S. corn exports have decreased by an average of 2.6% per year, along with a 53% decline in the annual average price.*** In the year ahead, traditional competitors in the global corn and feed grain markets will have less feed grain to export than last season. ***However, two newer areas of competition, Eastern Europe (EE) and the Former Soviet Union (FSU), will have substantially larger supplies than last season.*** Projected exportable feed grain supplies from traditional competitors, plus exportable feed grain and wheat supplies from these two new competitors moderately exceed those of last year. USDA Foreign Agriculture Service (FAS) projections used here for EE and FSU include wheat, since both areas are also likely to export feed wheat. The total projected exports for these regions and comparisons with recent years are shown in Figure 1. ***The 2001-02 projections include an expected 19% decline in Argentina's corn crop to be harvested next spring, but do not include an expected decline in Brazil's production because USDA projections are not available.*** Early indications are that reduced Brazilian corn acreage could offset around one-third of the 2001-02 increase shown in Figure 1. Also, some wheat from EE and FSU will be exported as milling wheat and will not compete with corn. However, a wet harvest has downgraded a substantial part of Argentina's wheat and may boost its feed wheat exports. The increase in competition from these sources may be a bit less than implied by Figure 1, but still appears likely to be a significant factor in U.S. corn exports.

Figure 1. USDA FAS Projected Net Exports of Selected Grain Competitors.



(EU feed grains, China feed grains, Former Soviet Union 12 wheat & feed grains, E. Europe wheat & feed grains, Canada feed grains, Australia feed grains, Argentina feed grains)

These increased supplies plus slow growth of the world economy in the first half of 2002 are likely to be a restraint on U.S. corn exports, although a slight to modest increase from a year earlier appears likely. Last winter, spring, and early summer's exports were adversely affected by Starlink® co-mingled supplies, but Starlink® should be much less of a problem this year. Uncertain Japanese demand for meat also may temper export demand for U.S. corn.

Cumulative Exports

Total U.S. corn, wheat, and soybean exports from the start of the marketing years through December 13.

	Mil. Bu.		% Change vs. year ago (%)
	Through 12/13/00	Through 12/13/01	
Corn	562.5	502.6	-11
Soybeans	373.7	401.4	+7.4
Wheat	617.1	558.0	-10

Overall Corn Supply Still Tightening; Price Prospects Positive

The supply-demand balance for corn in the year ahead still shows declining corn carryover stocks due to strong domestic demand and last year's reduced corn plantings. That prospect plus the expected expansion in ethanol production again next year appear likely to bring a gradual increase in cash and new-crop corn prices this winter and next spring, partly to attract increased 2002 corn plantings. Uncertainty about the impact of WTO on China's corn imports and exports will be an additional factor tending to support corn prices.

Soybeans and World Competition

U.S. soybean exports have increased by an average of 3.5% per year since 1995, while the season average price has declined by one-third, helping to buy this additional demand. U.S. soybean meal exports over the same period increased by an average of 5.4% annually, along with an average yearly increase of 8.3% for soybean oil.

The average annual increase since 1995-96 in world use of soybeans has been 6.3%. For the year ahead, current USDA projections show a 4.5% increase, down from last season's 7.8% increase in world use. The expansion in 2000-01 world soybean use was increased by EU's ban on feeding of all animal-based protein feed ingredients. The ban resulted in a shift from products such as meat meal and tankage to soybean meal. In October of this year, Japan put a similar ban in place, although its impact on world soybean meal demand will be considerably less than that of the EC. World soybean stocks increased by an estimated 6% last year, according to USDA data. The current projection shows an additional 4% increase to occur this year.

Price Impact of South American Soybean Production

U.S. soybean and soybean product exports and export sales have been quite strong so far this marketing year, and appear likely to remain strong through mid- to late January. Percentage changes from last year in total exports and outstanding sales through December 6 were as follows for soybeans, meal, and oil, respectively: +19, +43, and +67. ***From mid-February onward, new U.S. sales of beans and meal appear likely to slow considerably because of forward new-crop South American sales.*** Soybean oil shipments and sales may fare a bit better because of reduced foreign production of high-oil-content oilseeds, namely canola, rapeseed, and sunflowers. Also, the latest Malaysian palm oil production data indicate November production dropped slightly below that of a year earlier. Smaller production may be due to increased replanting of older trees, which will require 3 to 4 years to come into production.

Slackening export demand for U.S. soybeans and meal, plus a likely increase in farmer marketings in late winter are cautions that bean prices may weaken in the last half of February, barring a major change in South American weather. Prices in late March and April may increase slightly and will probably become more volatile as the grain trade reflects on 2002 acreage and yield prospects.

January USDA Grain Reports

On January 11, USDA will release updated U.S. and world crop and supply-demand estimates. As noted in the mid-November *Iowa Farm Outlook*, history indicates that the corn production estimate is likely to increase. Reports from previous years, however, suggest that farmers should not expect much change in the soybean production estimate. In our most recent balance sheets, we have increased the U.S. average corn yield by 0.5 bushels per acre to reflect the historical pattern where large crops continue to get larger in the January report. Our 2001-02 soybean production estimate is up only 0.2 bushels per acre from USDA's November estimate. See: http://www.econ.iastate.edu/faculty/wisner/index.html

The USDA World Supply-Demand report will also contain updated projections of the spring 2002 South American harvests. The January 11 grain stocks report will show estimated grain stocks as of December 1, 2001. This report will provide a basis for estimating corn feeding during the September-December quarter. Early indicators suggest fall-quarter corn feeding was slightly larger than that of last year. The stocks report also will provide a check on USDA's 2001 soybean production estimates.

Robert Wisner